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CPM's Macroeconomic and Market Perspective

Growth Under Pressure: Energy Shocks, Cooling Labor, and Narrowing Policy Flexibility

Ben Demko
Director of Applied Economics
Key Bank Credit Portfolio Management
ben_demko@keybank.com
(216) 689-4042

The U.S. economy enters mid-2026 in a fragile expansion, supported by still-positive growth, resilient high-income consumers, and emerging productivity gains from artificial intelligence, but increasingly constrained by higher energy costs, cooling labor momentum, and elevated geopolitical risk.

Inflation has moderated from prior peaks but has recently re-accelerated due to the war in Iran, tightening financial conditions and narrowing the Federal Reserve's policy flexibility.

While a recession is not the base case, the outlook has become more asymmetric, with downside risks dominating and growth increasingly vulnerable to further energy shocks, financial-market volatility, and policy missteps.

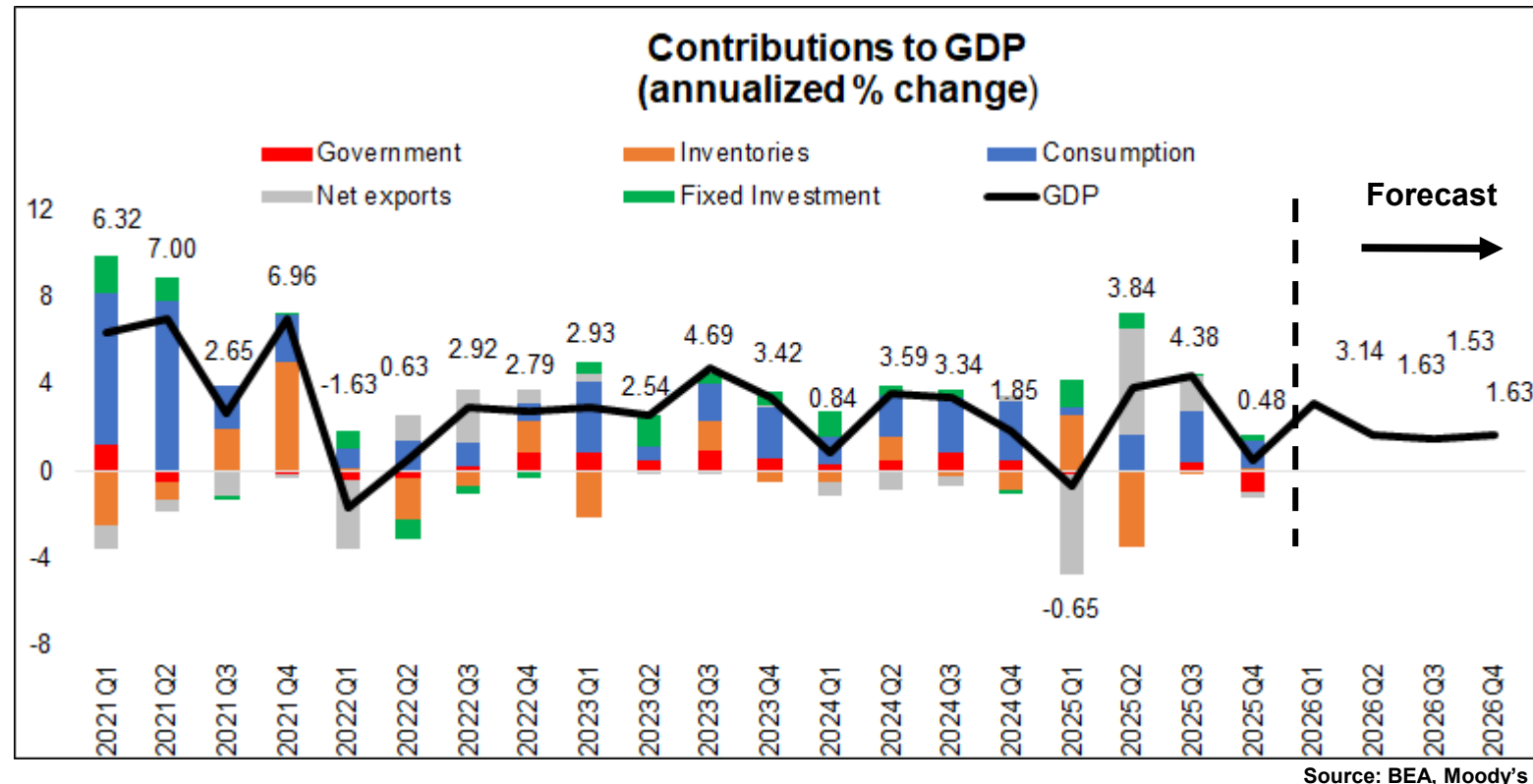


Growth Under Pressure: Energy Shocks, Cooling Labor, and Narrowing Policy Flexibility

- Economic growth continues but is increasingly fragile, with momentum supported by consumption and AI-related investment, yet constrained by higher energy prices, fading stimulus, and rising policy uncertainty.
- The labor market is cooling unevenly, with payroll growth volatile, participation drifting lower, and hiring expectations softening, but no broad-based layoffs or collapse in employment. AI-driven restructuring is becoming a more visible labor headwind, as firms curb future hiring needs and reallocate spending toward automation and productivity investments.
- Wage growth is decelerating but sticky, remaining in the high-3% range and limiting the pace of disinflation amid still-elevated cost-of-living pressures.
- Consumer confidence has fallen to record lows, driven primarily by the rapid spike in gasoline prices and rising inflation expectations, even as spending among higher-income households remains relatively resilient.
- Inflation has re-accelerated on energy, with March CPI and PPI prints dominated by gasoline and fuel costs, while core inflation remains better behaved but vulnerable to pass-through.
- Supply chains are no longer a tailwind, with the NY Fed's GSCPI rising to its highest level since early 2023, reflecting transport and delivery disruptions tied to geopolitics.
- Manufacturing has returned to expansion, but with severe cost pressures and contracting employment, while services continue to grow more slowly and show rising sensitivity to global risks.
- Housing remains constrained by affordability, as mortgage rates, rising inventories, and higher input costs weigh on activity and builder confidence despite underlying demographic demand.
- Business sentiment is diverging, with large-firm CEO confidence stabilizing while small businesses grow increasingly cautious, cutting back capital spending plans amid uncertainty.
- Monetary policy flexibility is limited, as energy-driven inflation and higher inflation expectations suggest a prolonged Fed hold and fewer expected rate cuts.
- Downside risks dominate the outlook, with oil prices, financial-market volatility, tariffs, and geopolitical escalation posing asymmetric threats to growth, even as recession is not the base case.



The U.S. economy is forecast to maintain modest growth in 2026, but higher oil prices could dampen the outlook.

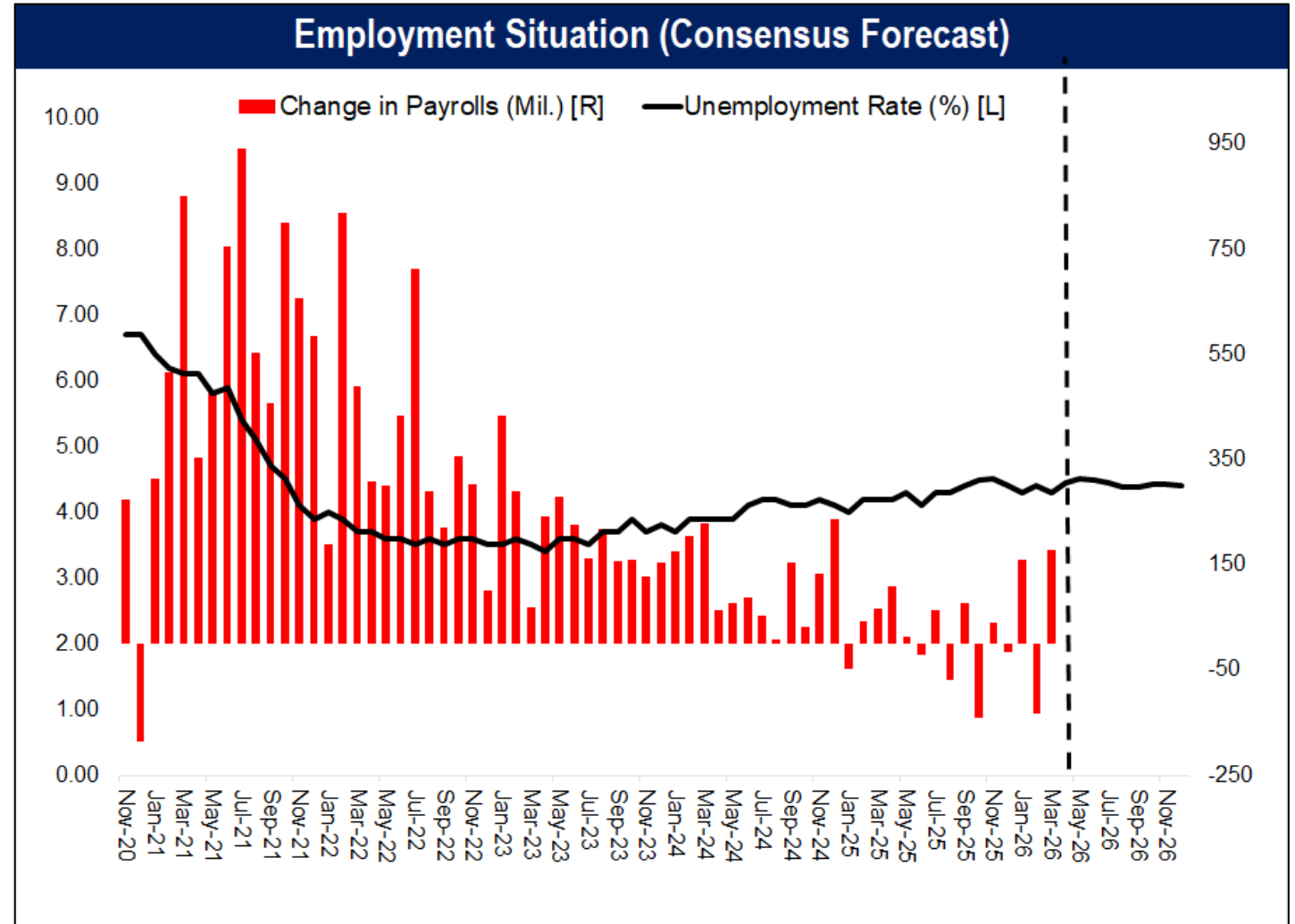


- U.S. economic growth slowed under the weight of the government shutdown in the last three months of 2025, well before the conflict in the Middle East erupted. According to the Bureau of Economic Analysis' third estimate, the economy grew 0.5% in the fourth quarter. Consumer spending was the primary driver of growth, with investment contributing. Government was a major drag, with the BEA estimating that the shutdown reduced growth by at least 1 percentage point. Trade was a minor drag. The saving rate fell to 4% from 4.4% in the third quarter. Profits rose \$247 billion after rising \$176 billion in the third quarter. Gross domestic income rose 2.6% after rising 3.5% previously.
- Growth this year has become more uncertain. The spike in energy prices is undermining activity and confidence, and any offsetting investment in the energy industry will be slow to materialize. However, support has come from large tax refunds and other stimulus enacted as part of the One Big Beautiful Bill Act. That lift will not be sustained as the weight of rapidly rising energy prices, higher tariffs, immigration restrictions, and other deglobalization policies continues, and the lift from stimulus fades. Growth is expected to be modest after a strong first quarter.



Payroll growth has whipsawed in the first three months of 2026.

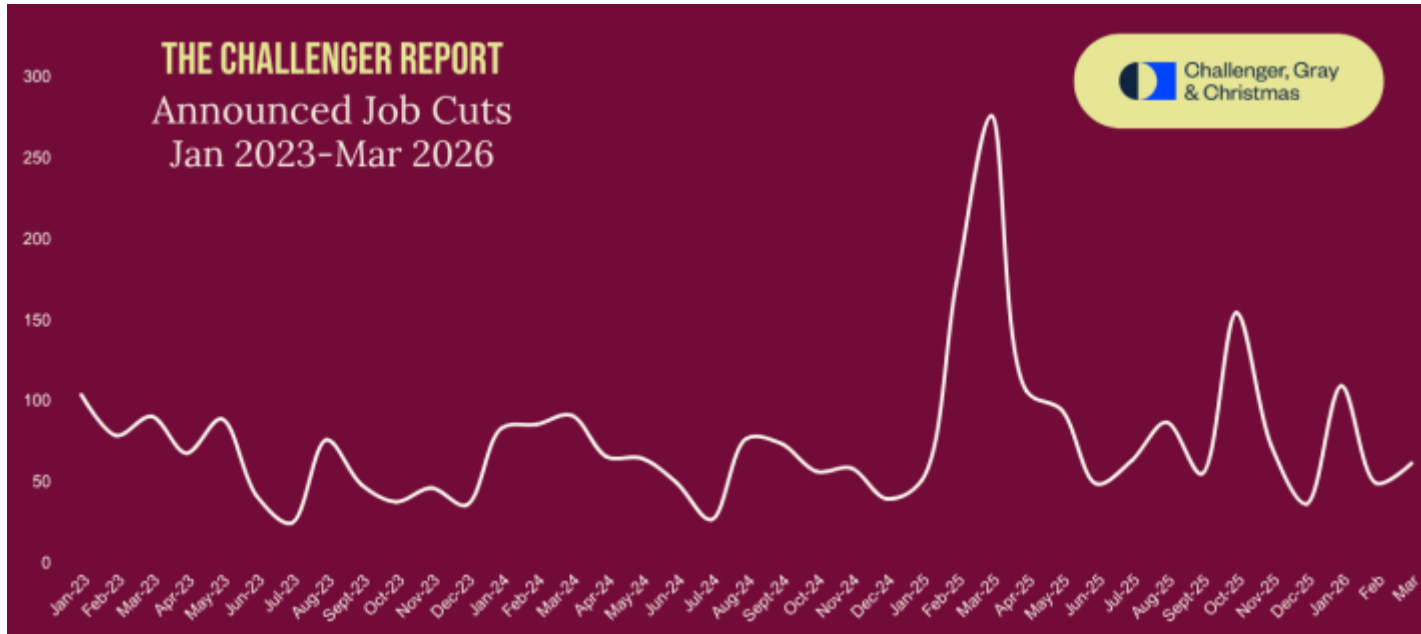
- In March, nonfarm payrolls jumped 178,000. The increase was higher than the consensus call for 50,000 and followed a sharp decline in February. Revisions to January and February were large, but in opposite directions. In January, payroll growth was revised upward to 160,000. February's bad report looks worse, with payrolls now estimated to have declined 133,000 in the month. In the first quarter, monthly payroll growth averaged 68,000.
- Job growth continues to be concentrated in healthcare, but March brought solid gains in construction and manufacturing. Finance shed jobs, and the public sector, weighed down by consistent declines in federal government employment, fell again.
- The household survey told a far less encouraging story in March. The unemployment rate ticked down from 4.4% in February to 4.3% in March, though this was due to a shrinking labor force. Labor force participation fell to 61.9% in March, its lowest since late 2021.
- With energy prices soaring, March's strong jobs report is not forcing the Federal Open Market Committee to rescue a flailing labor market. Instead, low layoffs and weak-but-positive job growth will afford the FOMC some patience.



Source: BLS



There are growing signs that AI is reducing expectations for future labor needs.



Job Cuts by Reason

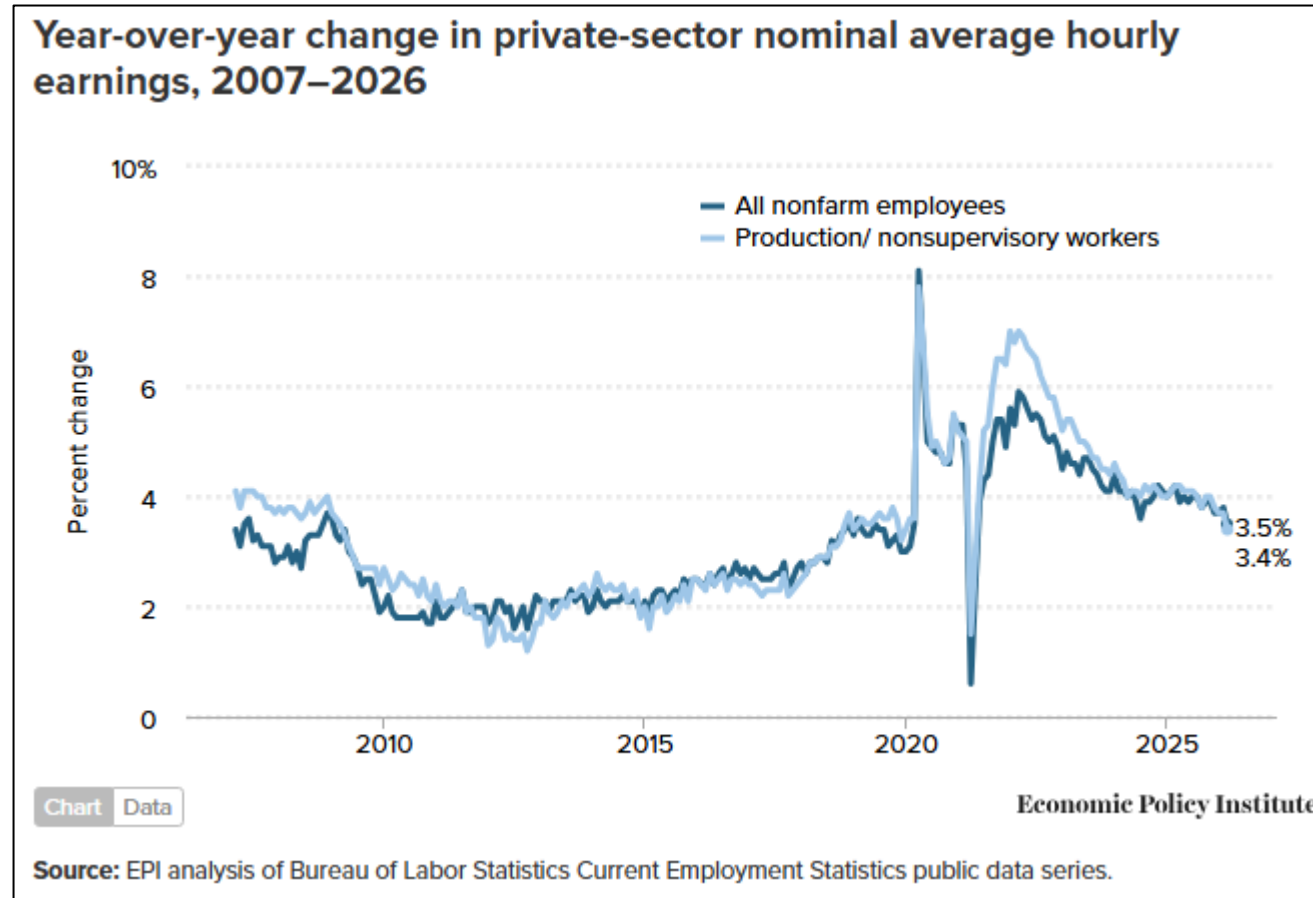
	Mar-26	YTD 2026
Market/Economic Conditions	6,597	45,103
Restructuring	8,726	37,916
Closing	13,931	37,405
Contract Loss	401	31,817
Artificial Intelligence	15,341	27,645
Cost-Cutting	6,514	15,982
Acquisition/Merger	3,693	7,534
Demand Downturn	1,523	4,702
EV Tax Credit Expiration	958	2,058
Bankruptcy	1,317	1,621
Technological Update (automation)		1,353
Financial Loss	85	872
DOGE Downstream Impact		826
No Reason Provided	259	542
Relocation (Domestic)	394	449
Voluntary Severance/Buyouts	361	361
Relocation (International)		341
Consolidation	296	317
Tariffs		294
Government Regulations	148	148
Legal Trouble	76	76
TOTAL	60,620	217,362

Source: Challenger Gray & Christmas

- U.S.-based employers announced 60,620 job cuts in March, a 25% increase from the 48,307 job cuts announced in February. March's total was down 78% compared with the same month last year.
- Artificial intelligence was the leading reason for job cuts, followed by closings, restructuring, and then market and economic conditions.
- So far this year, employers have announced fewer new hiring plans than in the first quarter of 2025. Companies are managing ongoing cost constraints and subdued demand, and conflict in the Middle East has made businesses and consumers even more uncertain about the future. There are also growing signs that AI is reducing expectations about future labor needs.
- More layoffs are likely to come from Technology companies in 2026. Last month's total was made up primarily on a workforce reduction at Dell Inc., according to their latest annual filing. Oracle reportedly began layoffs late last month, though the company has not released a total figure. Meta, meanwhile, is undergoing layoffs in its Reality Labs division as it focuses on pivoting to artificial intelligence. "Companies are shifting budgets toward AI investments at the expense of jobs. The actual replacing of roles can be seen in Technology companies, where AI can replace coding functions. Other industries are testing the limits of this new technology, and while it can't replace jobs completely, it is costing jobs," said Challenger.



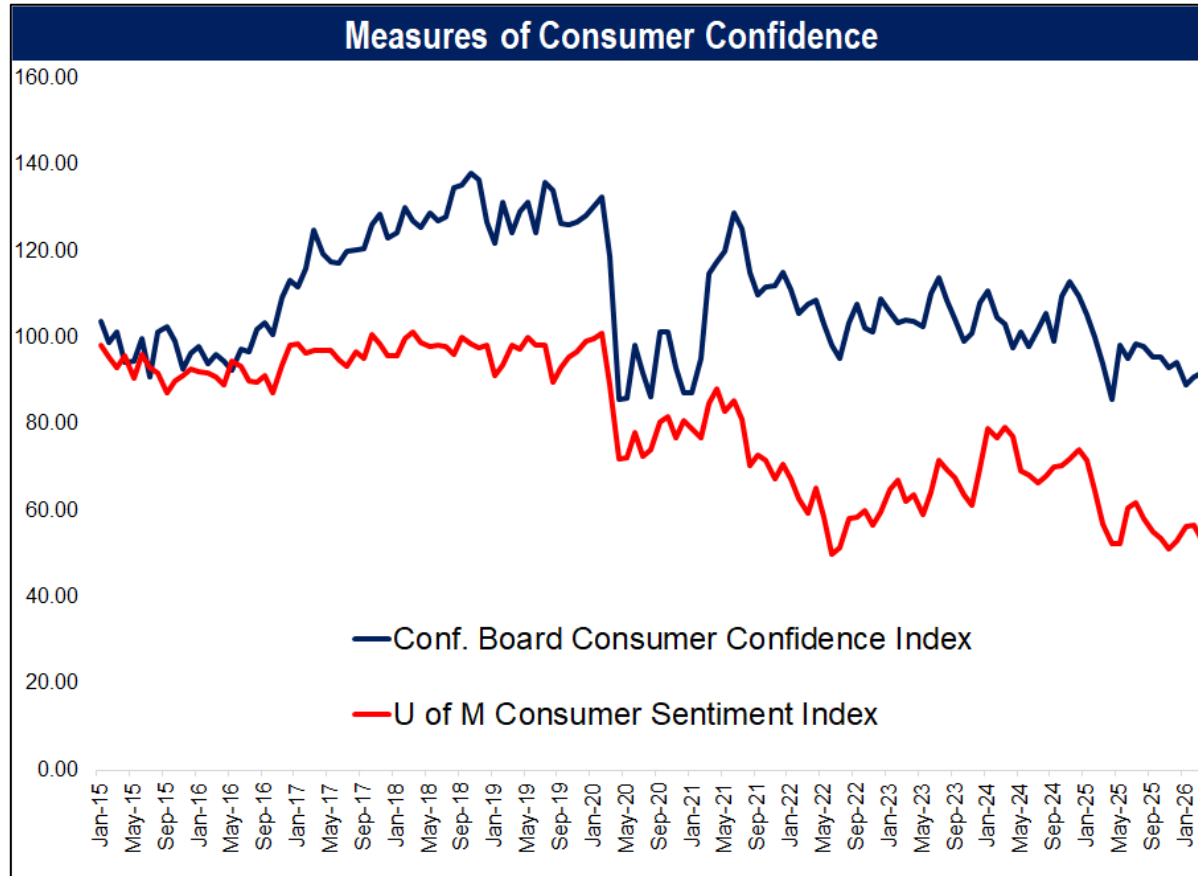
Nominal wage growth has continued to cool slightly into early 2026.



- Nominal wage growth has continued to cool into early 2026, with the Economic Policy Institute’s Nominal Wage Tracker showing year-over-year private-sector wage growth around the mid-3% range, well below the peaks seen during the post-pandemic labor squeeze and increasingly aligned with a slower-growth labor market.
- Other measures tell a similar story: the Atlanta Fed’s Wage Growth Tracker has edged down to the high-3% range, reflecting reduced job switching and a “low-hire, low-fire” environment as employers retain workers but limit pay acceleration.
- Looking ahead, wage growth is likely to decelerate modestly but remain sticky, supported by still-tight labor supply and elevated cost-of-living pressures, while slower hiring and rising slack cap upside risk.



Confidence plunged to a record low in early April.



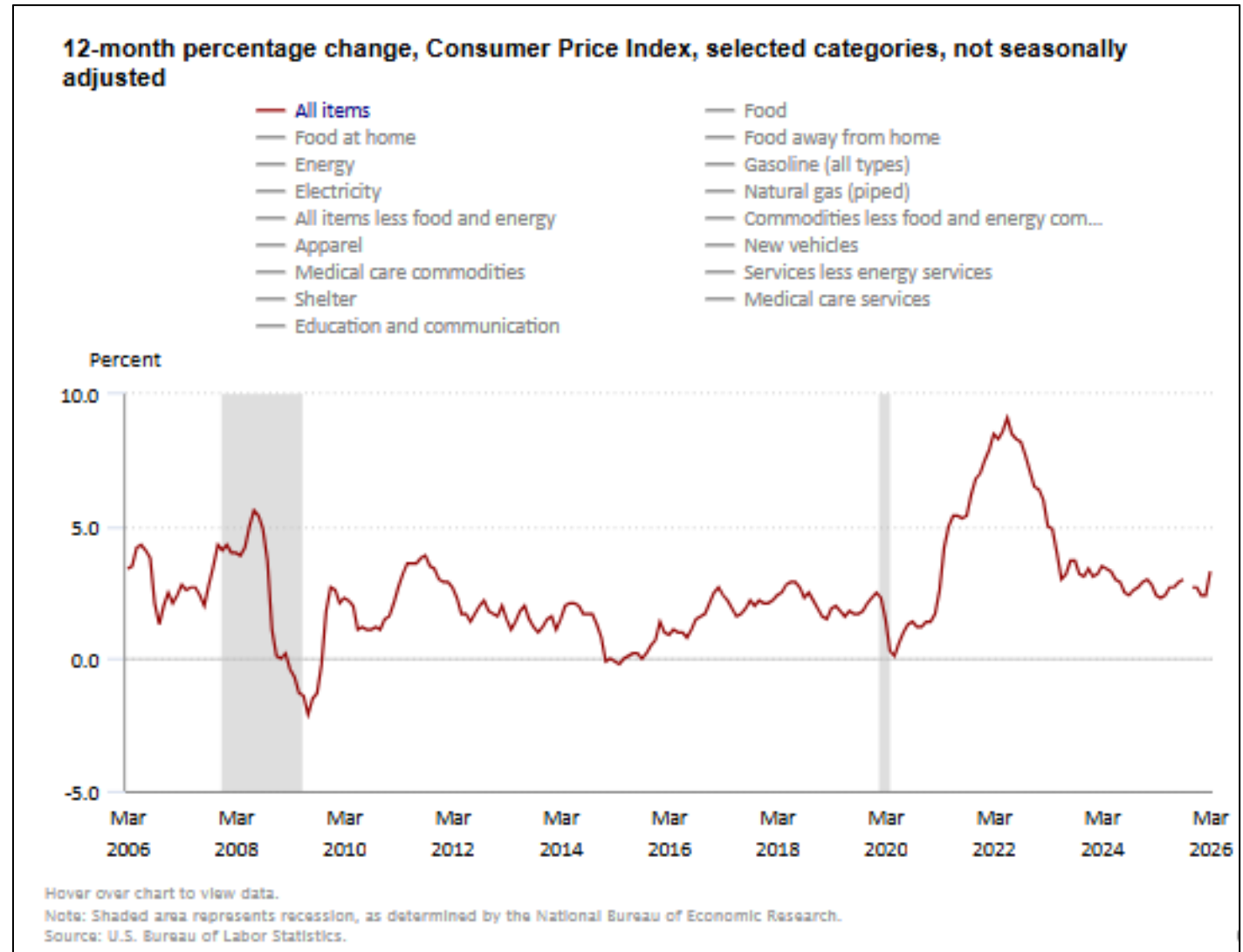
Source: University of Michigan, Conference Board

- According to the University of Michigan Consumer Sentiment Index, confidence plunged to a record low in early April as consumers digested soaring gasoline prices, which rose about \$1 per gallon in four weeks. Confidence dropped to 47.6 in April, according to the preliminary report, while inflation expectations moved higher. Confidence dropped from 53.3 in March, falling below the previous record low of 50 reached in June 2022. Median 12-month inflation expectations jumped to 4.8% from 3.8%, and five-year expectations rose from 3.2% to 3.4%. Compared with March, the decline was nearly equal across components.
- This measure of confidence is so low that increases are likely once gasoline prices begin to decline. This level of angst is unprecedented, even in the deepest of past recessions. However, the timing and magnitude of increases are highly uncertain. Key questions include the path of energy prices; the stock market; the trajectory of domestic and retaliatory tariffs; and developments in the Middle East, Ukraine, and other overseas hot spots. Among the important factors to watch in determining the path of confidence are gasoline prices, stock prices, broader inflation rates, interest rates, the labor market, financial system stability, the impact of conflicts abroad, and events in Washington.



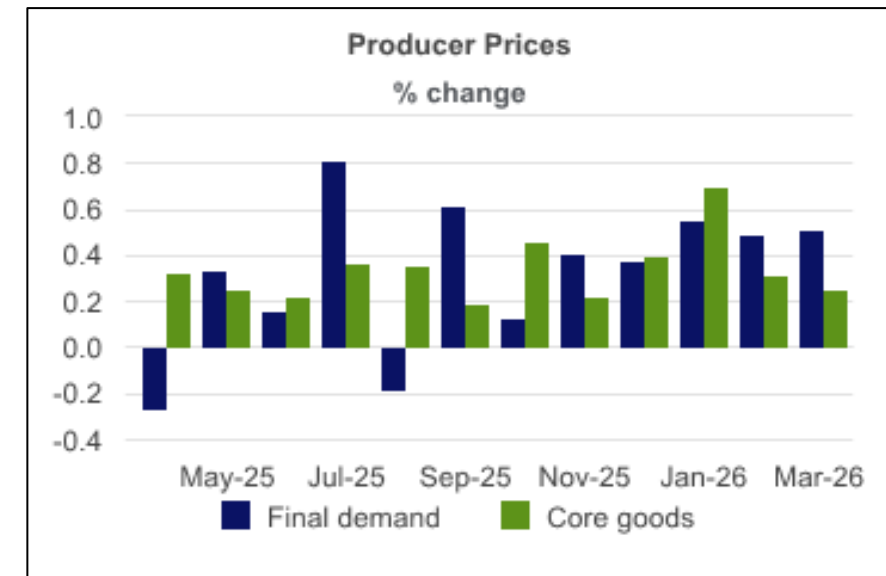
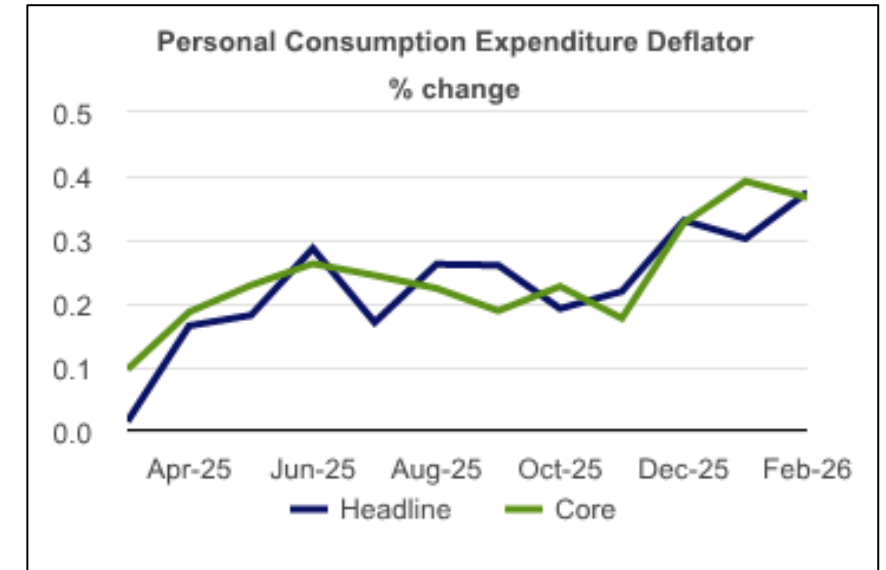
Spiking oil prices caused March's consumer price index to rise 0.9%.

- Spiking oil prices caused March's consumer price index to rise 0.9%. The sharp increase lifted the year-ago rate from 2.4% in February to 3.3% in March.
- The CPI for gasoline surged 21.2% on the month, as the average price of gasoline climbed toward \$4 per gallon. The CPI for food at home fell 0.2% in March.
- Excluding food and energy, core CPI rose 0.2% from February to March. It lifted the year-ago rate from 2.5% to 2.6%.
- The Federal Open Market Committee appears hesitant to take action. Bond investors estimate a two-in-three chance that there will be no rate cuts in 2026. If inflation expectations start to drift higher, the FOMC may even be tempted to tighten policy with a rate hike.
- However, it is more likely that a weakening labor market and a more stable situation in the Middle East will allow for a return to the easing cycle that began in late 2025 by the end of 2026.

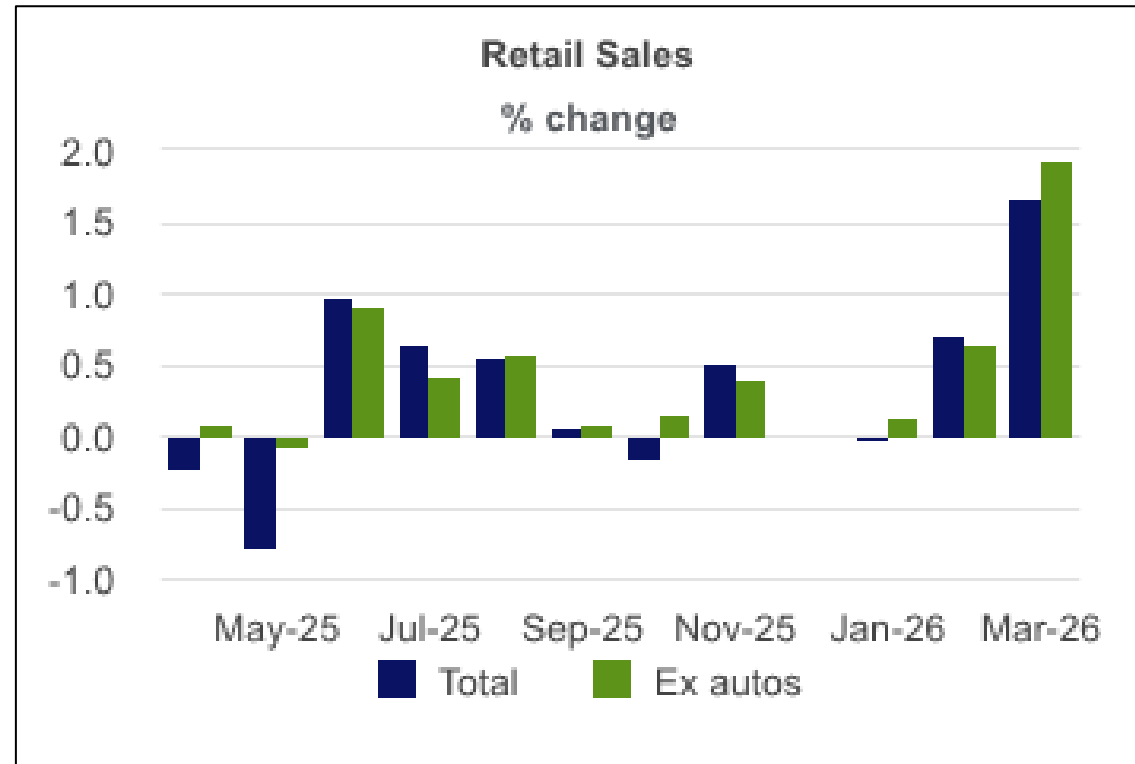


Wholesale prices rose strongly in the first quarter of 2026.

- Wholesale prices rose strongly in the first quarter of 2026. After rising by 0.5% in February, the PPI for final demand rose by 0.5% in March, undershooting the consensus prediction of an increase of more than 1%.
- The latest monthly increase brings the year-ago rate from 3.4% in February to 4% in March, the highest 12-month rate since February 2023.
- As expected, energy was the main story in March. The PPI for energy increased by 8.5% on the month after rising by 2.1% in February.
- The 15.7% increase in gas prices on the month accounted for about half of the increase in final demand goods inflation in March.
- Energy prices began to climb in March due to the conflict with Iran and the Iranian blockade of the Strait of Hormuz. Following unsuccessful peace talks in mid-April, the U.S. announced its own blockade of the Strait of Hormuz. This move would prevent vessels that gained Iran's blessing from traveling through the strait and immediately halt Iran's crude oil exports, raising the global oil production outage to almost 12 million barrels per day. This blockade has the potential to push oil prices even higher.



Retail sales soared in March, but the gain was largely due to soaring gasoline prices.

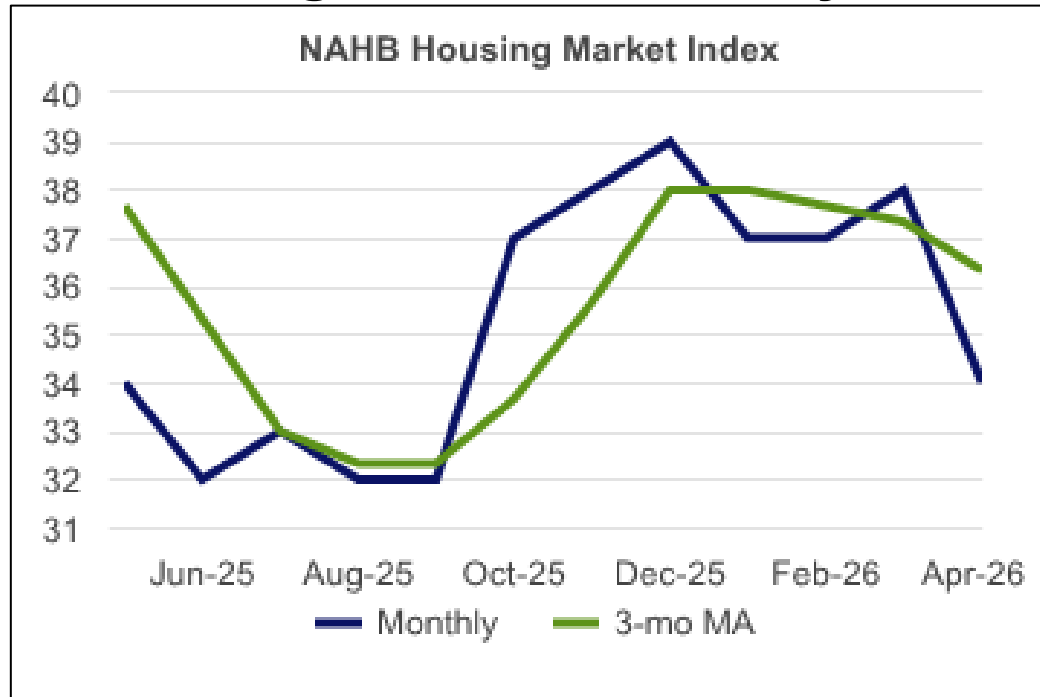


Source: Census.gov, Moody's

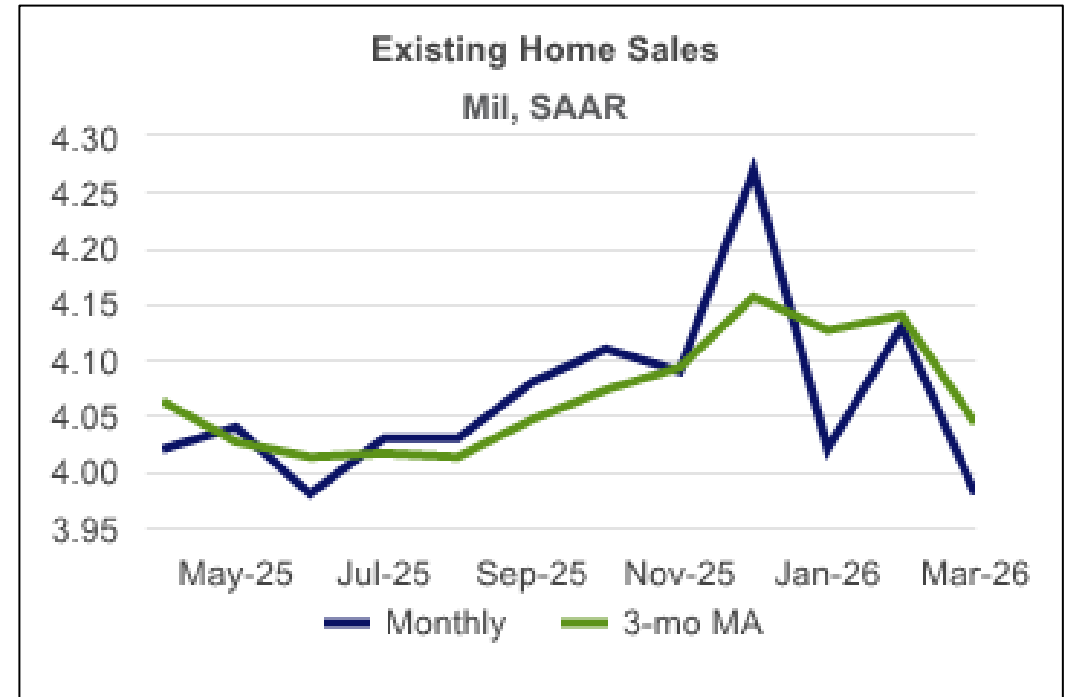
- Retail sales in March had three themes. Soaring gasoline prices massively lifted sales at gasoline stations and created the largest top-line sales increase since January 2023. Auto sales continued to rebound from a weather-induced plunge in January, lifting sales at auto dealers. Outside of those segments, sales were surprisingly healthy in aggregate, suggesting consumers may have drawn on savings and other sources to fund increased energy expenditures, at least as energy prices started to rise. A modest increase in core goods prices supported dollar sales.
- Several factors are supporting retail sales growth. Prices are by far the largest. Even excluding the jump in gasoline prices, inflation accelerated for many other goods late last year and into this year, so prices are lifting sales, at least compared with a year ago. Wealth rose rapidly last year. High-income households have been spending some of their newfound wealth despite recent stock market volatility. Even with the weakening job market, unemployment remains low, and real wage income is rising at a healthy, if declining, pace. Debt burdens remain low despite pockets of credit problems.
- Risks to the outlook are significant. The biggest risk may be further increases in energy prices, which would hurt both real incomes and confidence. The possibility that stock prices fall again, lowering wealth and spending among higher-income households, is another major risk.



While the underlying demand for housing remains robust, still-high interest rates will weigh on affordability



Source: <https://www.nahb.org/>

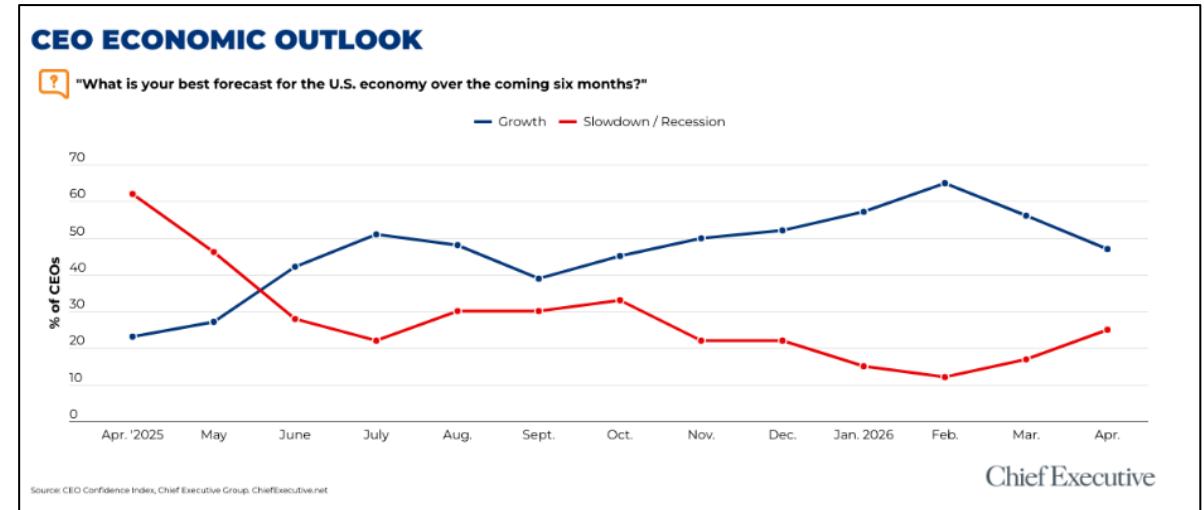
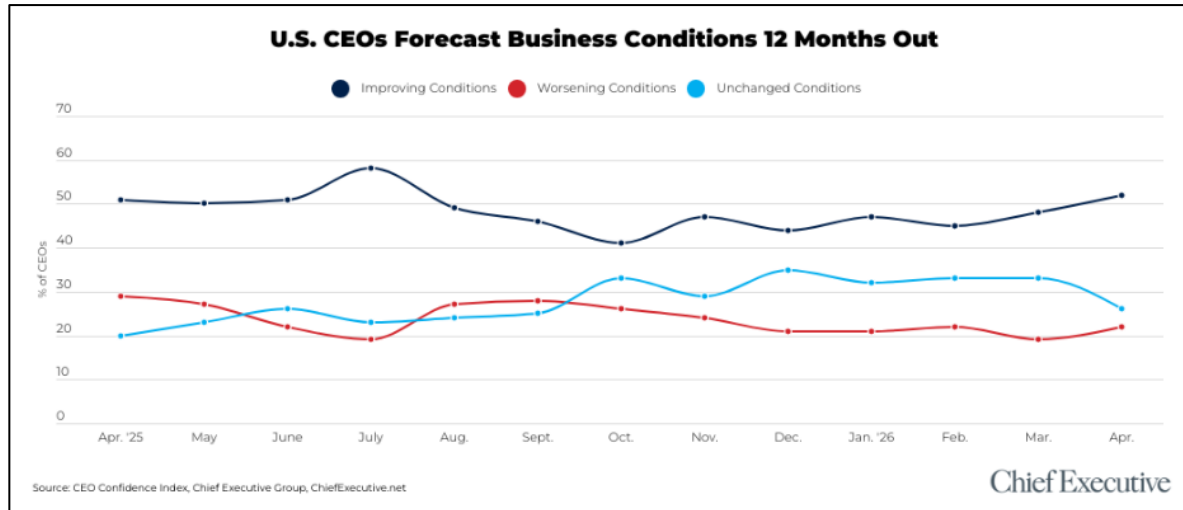


Source: National Association of Realtors

- Homebuilder confidence declined 4 points to 34 in April, according to the National Association of Home Builders' Housing Market Index. Elevated input costs, along with soft demand due to poor affordability, weigh on builder confidence. The index remains well below the 50-point threshold, indicating poor building conditions over the next six months.
- Housing demand remains weak amid severe affordability constraints, with buyer traffic the softest subcomponent. Several years of double-digit house price gains following the pandemic far outpaced wage growth and eroded affordability, while elevated mortgage rates added further pressure. The 30-year fixed mortgage rate has climbed back to the mid-6% range and currently stands at 6.4%. Even with another Federal Reserve rate cut this year, mortgage rates are expected to remain near 6.2% in 2026, keeping many prospective buyers on the sidelines.
- Sluggish new home sales have pushed inventories higher, with months' supply rising to 9.7, well above a healthy six-month level. In response, 36% of builders cut prices in April, broadly in line with recent months, with an average price reduction of 5%. Builders continue to struggle with excess inventory, prompting pullbacks in single-family permits. Higher oil prices are adding to cost pressures by lifting diesel, transportation, and energy-intensive material costs such as cement, steel and asphalt. As cost uncertainty and margin pressures mount, builders are growing more cautious, scaling back starts or delaying projects, further weighing on confidence.



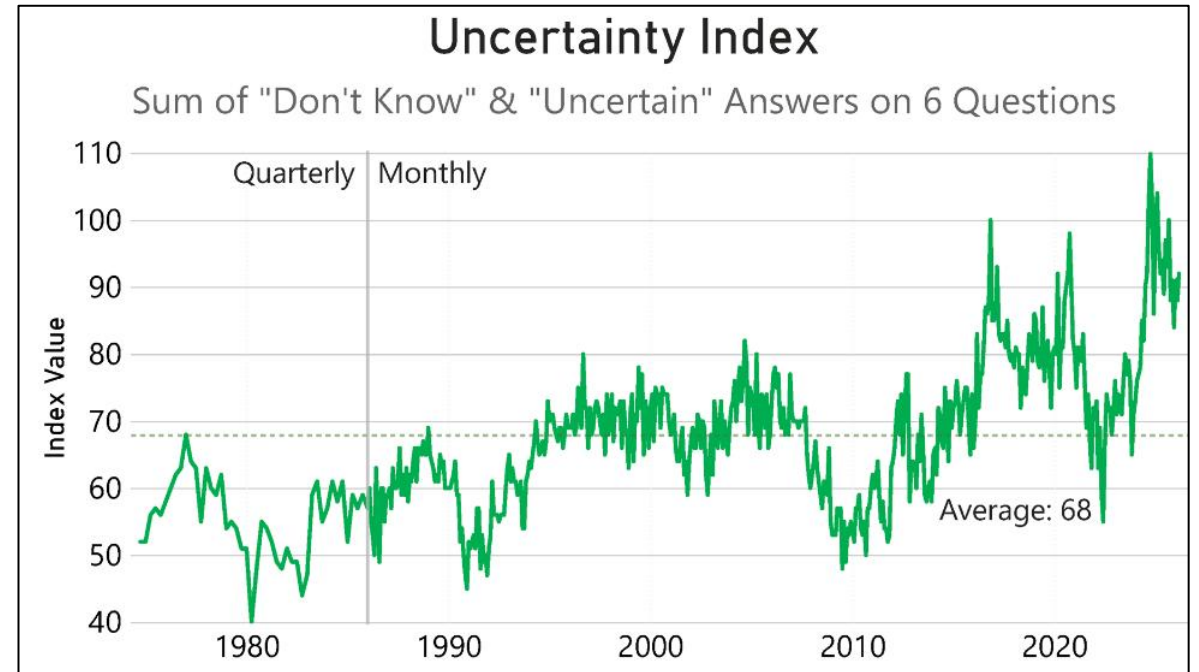
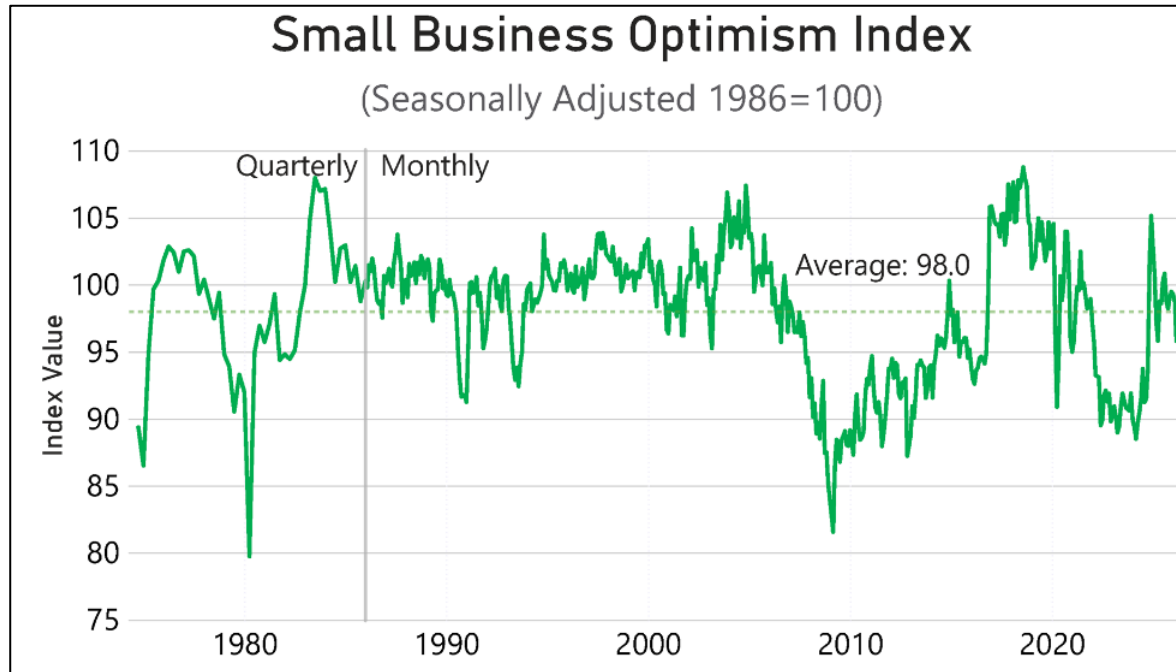
CEO outlook improving amid worry about a potential economic slowdown.



- Chief Executive's CEO Confidence Index rose 2 percent to 5.5 out of 10, back to where it began the year. The index remains 8 percent below its 12-month high of 6.0, reached in December.
- While most CEOs continue to expect the U.S. economy to grow in the near term, fewer are forecasting expansion at recent levels.
- The share expecting growth fell to 47 percent in April, from 56 percent in March. Meanwhile, expectations for a slowdown increased, with 25 percent of CEOs now forecasting a recession or slowdown within the next six months, up from 17 percent.
- Inflation expectations also moved higher. CEOs now forecast an average 12-month Headline Consumer Price Index rate of 4.6 percent, up from 3.5 percent in March. While the average can be skewed by outliers, the median also shows an increase: from 3.0 in both February and March, to 3.3 in April.



Main Street is worried.



Source: NFIB, https://www.nfib.com/news/monthly_report/sbet/

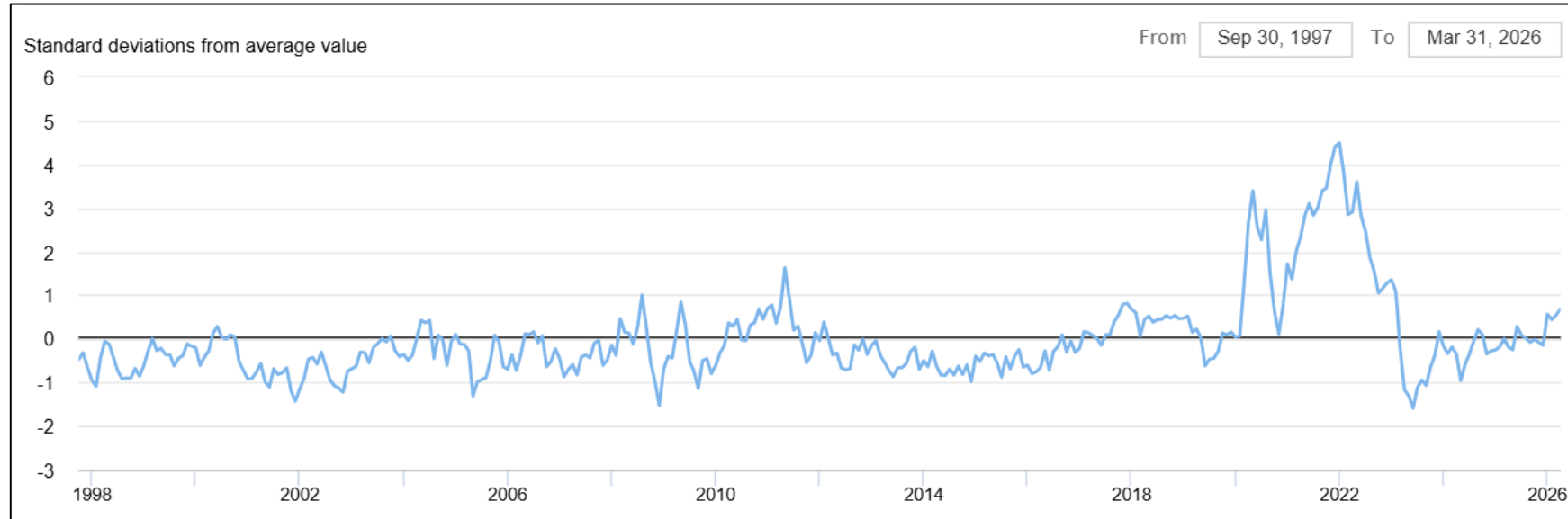
"The 20% Small Business Deduction and other supportive small business tax provisions in the Working Families Tax Cut Act have had many positives for small business owners," said NFIB Chief Economist Bill Dunkelberg. "However, the dramatic spike in oil prices has spooked consumers and owners alike. Small business owners are having to absorb those higher input costs and pass them along to their customers."

- Small business sentiment deteriorated as expected in March. The NFIB's index fell 3 points to 95.8, which was more severe than forecast and the lowest reading since April 2025. No component improved in the month, and the largest decline came from the net percentage of firms reporting profit improvement. Expectations for the economy to improve fell to their lowest since October 2024, as the uncertainty index rose to a six-month high. Despite new tax cuts to incentivize investment, high uncertainty is causing Main Street to be hesitant about making capital expenditures. Weaker sentiment on Main Street is being driven by supply chain and energy cost concerns stemming from the conflict in the Middle East.
- Tariff-rate volatility, the U.S.-Iran conflict, high interest rates, weak consumer confidence, and dysfunction in Washington are darkening the cloud over the outlook. Small businesses will sit on their hands until the cloud thins.



A prolonged escalation in Iran could reintroduce episodic supply chain stress.

Global Supply Chain Pressure Index (GSCPI)



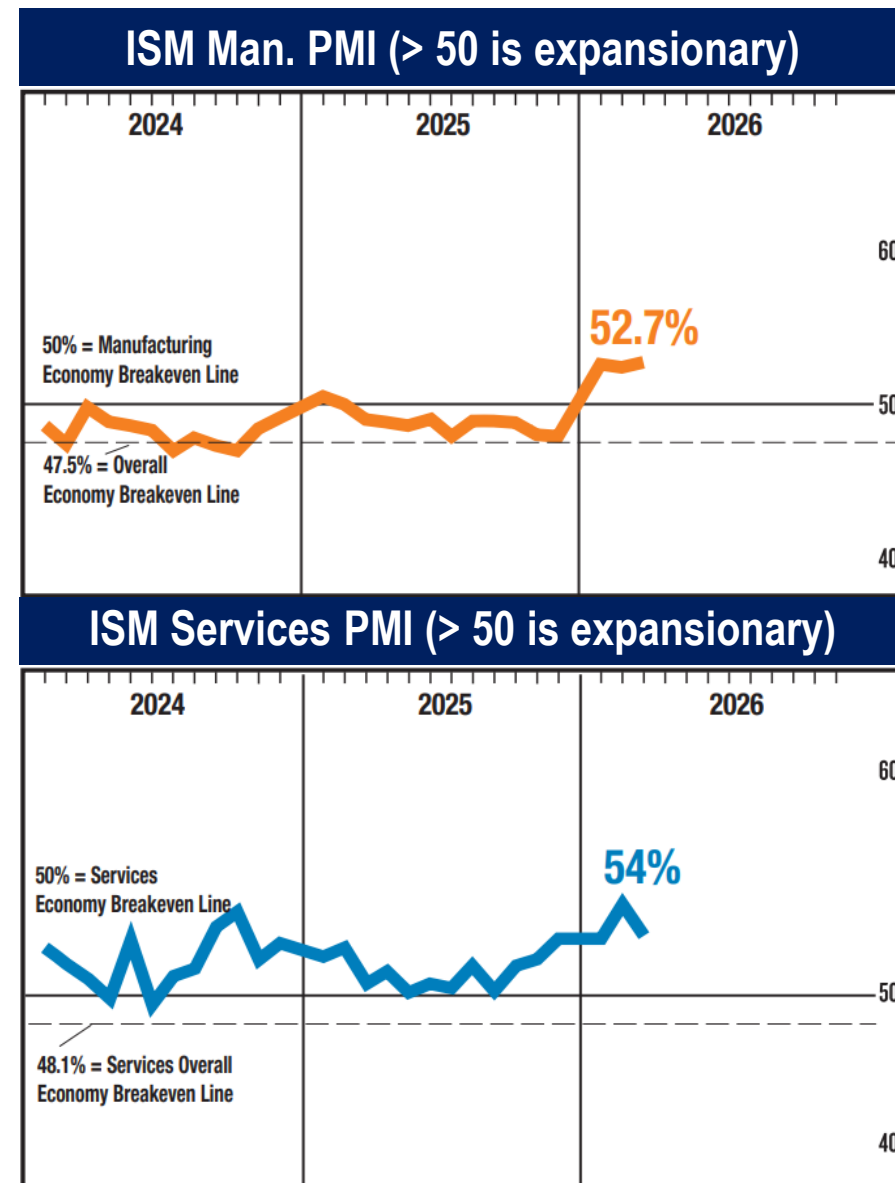
Source: Federal Reserve Bank of New York

- Global supply chains have moved off their post-pandemic trough and are showing renewed stress, though conditions remain far from crisis levels.
- The New York Fed's Global Supply Chain Pressure Index (GSCPI) rose to 0.68 in March 2026, the highest reading since early 2023, indicating above-average pressure driven by higher transportation costs and slower delivery times.
- Looking ahead, the outlook points to elevated but manageable volatility: absent a major escalation in geopolitical or trade shocks, supply chains are likely to remain functional but less smooth than in 2024–25, with lingering upside risk to goods inflation if pressures continue to build.



Geopolitical developments raise upside risks to both manufacturing and Services PMI.

- In March, factory activity expanded for the third consecutive month following several months of contraction. The ISM Manufacturing Index inched up from 52.4 in February to 52.7 in March. Demand continued to grow, evidenced by a new orders index in expansionary territory.
- Despite recent expansion in the factory sector, the employment index has remained in contraction for 30 consecutive months. This aligns with data from the employment report, which shows that factory payrolls have fallen sharply in recent years.
- Prices for manufacturers increased again in March. Prices for raw materials increased for the 18th consecutive month, bringing the ISM Prices Index to 78.3 in March, the highest reading since mid-2022. A reading above 52.8 is generally consistent with an increase in intermediate materials PPI. Tariffs continue to raise prices for manufacturing inputs, with high steel and aluminum tariffs serving as a particular pain point. Additionally, several respondents cited the conflict in the Middle East as a source of price pressures this month.
- The U.S. service sector slowed in March, perhaps an early sign of the fallout from the conflict in the Middle East. The ISM services index fell from 56.1 in February to 54. This suggests the industry is still expanding, albeit at a slower pace than the prior month. But the components indicate that service firms are getting nervous about geopolitics and are starting to feel some of its consequences.



Market-Implied Odds Skew Toward One or No Rate Cut in 2026.

- Market-implied odds from the CME FedWatch Tool suggest that near-term rate cuts are unlikely, with futures pricing showing a very high probability that the Federal Reserve holds the policy rate steady at the next several meetings, and only a gradual rise in cut probabilities later in 2026.
- For the April 2026 FOMC meeting, markets assign virtually a 100% chance of no change, reflecting confidence that the Fed will remain patient while assessing incoming data.
- Odds of a single 25bp cut increase into the second half of 2026, with probabilities approaching 20% by early fall, but expectations for a rapid or multi-cut easing cycle remain limited.
- The reasoning is straightforward: inflation has cooled but remains above target, labor markets are still resilient, and recent firming in supply chains and energy-related costs adds upside risk to prices, reinforcing a “higher-for-longer” bias unless growth or employment weaken more decisively.
- The Iran conflict complicates the Fed’s outlook by re-introducing a negative energy supply shock just as inflation is cooling but not yet defeated. Disruptions to oil flows and higher energy prices risk pushing headline inflation back up and raising the odds of pass-through into core goods and services, which keeps policymakers cautious. As a result, geopolitical uncertainty reinforces a wait-and-see stance.

	CME FEDWATCH TOOL - CONDITIONAL MEETING PROBABILITIES						
MEETING DATE	225-250	250-275	275-300	300-325	325-350	350-375	375-400
4/29/2026	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%
6/17/2026	0.0%	0.0%	0.0%	0.0%	4.9%	95.1%	0.0%
7/29/2026	0.0%	0.0%	0.0%	0.4%	12.7%	86.9%	0.0%
9/16/2026	0.0%	0.0%	0.0%	1.3%	18.3%	80.3%	0.0%
10/28/2026	0.0%	0.0%	0.1%	2.1%	21.0%	76.8%	0.0%
12/9/2026	0.0%	0.0%	0.3%	3.6%	25.5%	70.6%	0.0%
1/27/2027	0.0%	0.0%	0.3%	3.6%	25.5%	70.6%	0.0%
3/17/2027	0.0%	0.0%	0.3%	4.1%	26.5%	69.1%	0.0%
4/28/2027	0.0%	0.0%	0.3%	4.0%	26.0%	68.2%	1.5%
6/9/2027	0.0%	0.0%	0.7%	6.3%	30.3%	61.4%	1.3%
7/28/2027	0.0%	0.1%	1.1%	8.1%	32.7%	56.7%	1.2%
9/15/2027	0.0%	0.3%	2.3%	12.1%	36.6%	47.7%	1.0%
10/27/2027	0.1%	0.5%	3.6%	15.5%	38.1%	41.3%	0.9%
12/8/2027	0.7%	4.4%	17.0%	38.3%	38.7%	0.8%	0.0%

Source: CME Group.



The Mid-April Consensus Forecast assumes above 2% growth in 2026.

Key Risks:

- Higher-than-expected oil prices would weaken economic growth even more than already projected in the baseline and could send the economy into recession.
- Higher-than-expected oil prices could also contribute to higher inflation. If inflation remains elevated, the Federal Reserve could signal a slower-than-expected pace of cuts. This could cause confidence and credit-sensitive spending to decline sharply, and the economy could fall into recession.
- Higher-than-expected tariffs or more retaliation than anticipated could also raise inflation and reduce consumer spending and business investment more than predicted, weakening growth.
- With hiring weak, a return to pre-pandemic levels of layoffs would likely result in large job losses, undermining consumer spending and growth.
- A sharp correction in the stock market, especially if not quickly reversed, would reduce wealth and spending, resulting in layoffs and a recession.
- Unanticipated financial system weaknesses could appear, especially if long-term rates rise above expectations. Problems might not be handled as well as the bank failures in March 2023. This could reduce access to credit for businesses and consumers more than the Fed desired and push the economy into recession.
- An expansion of Russia's invasion of Ukraine and the resulting sanctions, an expansion of the conflict in the Middle East, or greater destruction of oil-producing infrastructure would cause global oil prices to increase, pushing gasoline prices above the forecast. This price increase could weaken business and consumer confidence and result in weaker-than-anticipated business and consumer spending

U.S. MACRO CF SCENARIO — FORECAST SUMMARY—April 2026										
	Units	25Q4	26Q1	26Q2	26Q3	26Q4	27Q1	27Q2	27Q3	27Q4
Gross Domestic Product	bcw \$	24,066.0	24,252.5	24,372.6	24,493.4	24,613.6	24,738.6	24,865.9	24,985.2	25,106.2
Change	%AR	0.7	3.1	2.0	2.0	2.0	2.0	2.1	1.9	2.0
Federal Budget	\$ bil	-602.4	-572.4	-152.3	-597.3	-858.6	-765.0	-208.9	-650.6	-894.0
Total Employment	mil	158.4	158.6	158.4	158.6	158.6	158.9	158.9	159.1	159.3
Change	%AR	-0.2	0.3	-0.3	0.3	0.2	0.6	0.2	0.4	0.5
Unemployment Rate	%	4.5	4.3	4.5	4.4	4.4	4.3	4.3	4.4	4.3
Light Vehicle Sales	mil, SAAR	15.7	15.6	15.7	15.7	15.7	16.2	16.2	16.2	16.2
Residential Housing Starts	mil, SAAR	1.3	1.5	1.3	1.3	1.3	1.4	1.4	1.4	1.4
Median Existing-Home Price	\$ ths	423.8	419.9	421.8	423.6	425.4	427.9	430.6	433.7	437.0
Change	%YA	1.2	0.5	2.1	1.6	0.4	1.9	2.1	2.4	2.7
Consumer Price Index	%AR	2.5	2.8	3.1	2.8	2.8	2.6	2.3	2.3	2.2
Federal Funds Rate	%	3.9	3.6	3.6	3.6	3.6	3.5	3.4	3.4	3.3
Treasury Yield: 10-Yr Bond	%	4.1	4.2	4.4	4.4	4.5	4.5	4.5	4.5	4.4
Baa Corp. - 10-Yr Treasury	DIFF	1.7	1.7	1.8	2.0	2.1	2.2	2.3	2.3	2.3
Corporate Profits With IVA & CCA	\$ bil	4,032.9	3,945.6	3,980.4	4,021.0	4,098.9	4,175.8	4,217.3	4,277.4	4,336.8
Change	%YA	1.6	0.6	1.3	-2.1	1.6	5.8	6.0	6.4	5.8
S&P 500	1941=10	6,776.5	6,825.8	6,534.6	6,564.6	6,579.6	6,594.6	6,601.8	6,614.9	6,633.3
Change	%YA	14.6	15.7	13.9	2.1	-2.9	-3.4	1.0	0.8	0.8
CRE Price Index	index	305.4	304.7	304.0	303.1	303.1	303.1	303.8	305.0	306.6
NCREIF Property Index: Rate of Return	%, NSA	1.1	1.5	1.5	1.4	1.4	1.3	1.5	1.5	1.5
C&I Loans Outstanding	\$ bil	2,699.4	2,770.9	2,794.7	2,814.0	2,834.5	2,871.5	2,902.8	2,932.8	2,961.7
BAA spread	%	1.7	1.7	1.8	2.0	2.1	2.2	2.3	2.3	2.3
	Units	2022	2023	2024	2025	2026	2027	2028	2029	2030
Gross Domestic Product	bcw \$	22,075.9	22,723.7	23,358.4	23,853.0	24,433.0	24,924.0	25,411.3	25,927.0	26,463.0
Change	%AR	2.5	2.9	2.8	2.1	2.4	2.0	2.0	2.0	2.1
Federal Budget	\$ bil	-1,419.2	-1,783.8	-2,017.8	-1,666.8	-2,180.6	-2,518.5	-2,669.7	-2,829.9	-3,078.9
Total Employment	mil	152.5	155.9	157.7	158.4	158.5	159.0	159.9	160.6	161.1
Change	%AR	4.3	2.2	1.2	0.5	0.1	0.3	0.6	0.4	0.3
Unemployment Rate	%	3.7	3.6	4.0	4.3	4.4	4.3	4.2	4.1	4.2

Source: Moody's Consensus Forecast



Late April Update: Recession risks have risen modestly but still remain short of a base-case downturn.

As of late April 2026, U.S. recession risks have risen modestly but remain short of a base-case downturn. Most leading models and policy-oriented indicators place the probability of a recession over the next 12 months in the ~15–25% range, while market- and scenario-based assessments imply higher downside risk over a longer horizon. Elevated geopolitical tensions, higher energy prices, and sticky inflation have increased vulnerability, though current conditions do not yet point to an imminent contraction.

Key Recession Risk Factors

- **Geopolitical Risk:** The war in Iran has introduced a material upside risk to inflation through energy markets. A sustained disruption to oil or shipping routes could significantly raise recession odds, even if it is not currently the central forecast driver.
- **Energy-Driven Inflation:** Higher oil and gas prices are pushing up input costs globally, complicating inflation dynamics. Several downside scenarios show meaningful economic drag if energy prices remain elevated for an extended period.
- **Cooling Labor Market:** Labor-market conditions are easing from previously tight levels, with slower hiring and rising sensitivity to demand shocks. However, nationwide employment data remain consistent with late-cycle cooling rather than contraction.
- **Monetary-Policy Constraint:** The Federal Reserve faces a narrow path: inflation remains above target even as growth momentum slows, limiting the scope for rapid policy easing without clearer labor-market weakness.

Indicators & Market Signals

- **Model-Based Risks:** Yield-curve-based and coincident-indicator models point to a moderate recession probability over the next year, while some downside stress scenarios from private forecasters approach 40% under adverse energy and policy assumptions.
- **Investor Sentiment:** Prediction markets and investor surveys imply higher recession odds by late-2026 than near-term models suggest, reflecting sensitivity to geopolitical escalation and policy error risk.
- **Sahm Rule Watch:** The Sahm Rule—triggered by a 0.50 percentage-point rise in the unemployment rate from its recent low—is being monitored but has not yet been activated.

Potential Mitigating Forces

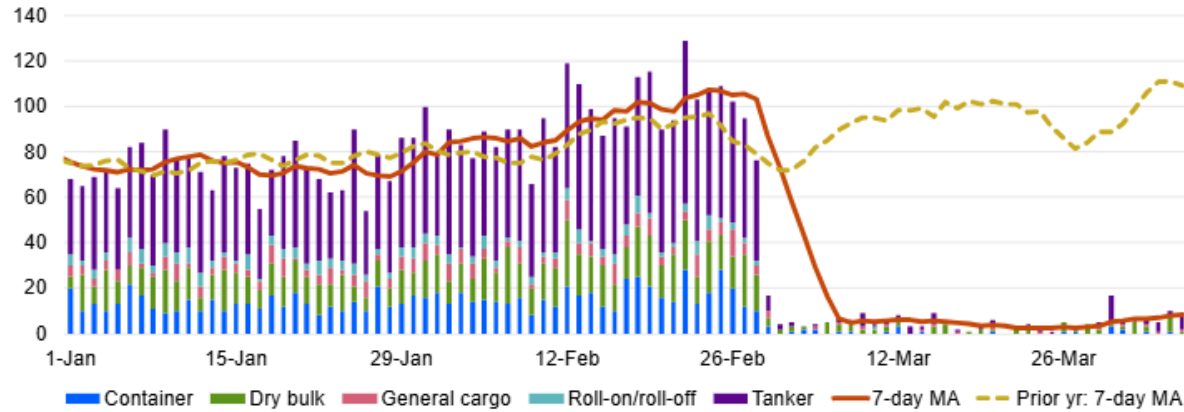
- **Productivity & AI Investment:** Continued capital spending linked to artificial-intelligence adoption could offset some cyclical drag, though labor-market effects remain uncertain.
- **Policy & Geopolitical Off-Ramps:** De-escalation in the Middle East, stabilization in energy markets, or selective policy adjustments could materially reduce downside risk.



Where is Oil Headed?

Strait of Hormuz Traffic Still at a Standstill

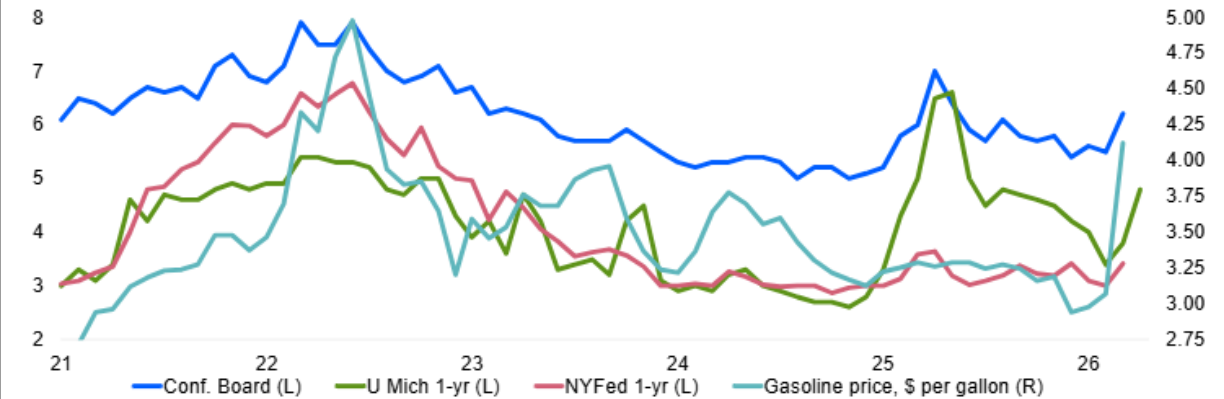
Number of vessels through Strait of Hormuz



Sources: IMF PortWatch, Moody's Analytics

U.S.: Gasoline Prices Drive Inflation Expectations Higher

Inflation expectations, % (L); gasoline price, \$ (R)



Sources: Univ. of Michigan, NY Fed, EIA, Moody's Analytics

- Risks to the economic outlook skew firmly to the downside, especially if a swift resolution to the conflict in the Middle East proves elusive and oil remains above \$100 a barrel into the summer. Further, a more severe and prolonged Middle East conflict would compound existing tariff pain, leading to a deeper hit to the global economy and higher inflation. This would force policymakers into even more difficult trade-offs, further raising the risk of monetary and fiscal policy missteps.
- Most recently, Goldman Sachs commodity analysts raised their forecasts on Monday (4/27) and now project that, in their base case, Brent crude will trade at an average of \$90 a barrel in the last three months of this year, up from an earlier projection of \$80, if oil exports from the Middle East normalize by the end of June. But they added that if exports do not return to normal levels until the end of July and if there is a “persistent reduction” of Gulf production capacity of 2.5mn barrels per day, then oil could average nearly \$120 in the fourth quarter.
- Morgan Stanley expects flows through the Strait of Hormuz to resume in late May. It is forecasting a Brent price of \$110 a barrel in the second quarter, slowly falling towards \$80 a barrel in 2027.



Numerous sectors will bear the brunt of a prolonged conflict.

Sector-level implications (credit lens)

Energy (Oil, Gas, Refining)

- Short-term cash flow upside for U.S. producers from higher prices, but with volatility risk and potential political pressure on prices.
- Refiners may face margin pressure from crude volatility and logistics disruptions.
- Credit positive near-term for upstream; more mixed for downstream and midstream with global exposure.

Transportation & Logistics

- Airlines face immediate cost pressure from fuel and airspace disruptions in the Middle East, with knock-on effects to global routing and capacity utilization.
- Shipping companies encounter higher insurance, security, and rerouting costs, margin compression likely.
- Credit negative, especially for issuers with thin margins or high leverage.

Manufacturing & Industrials

- Energy-intensive manufacturers (chemicals, metals, building materials) face rising input costs.
- Firms with just-in-time supply chains or Middle East exposure are more vulnerable to working-capital stress.
- Potential for rating outlook pressure if volatility persists beyond one quarter.

Consumer Discretionary

- Higher gasoline and heating costs crowd out discretionary spending.
- Travel, leisure, and big-ticket retail are most exposed to sentiment and fuel-price shocks.
- Credit risk increases for sub-investment-grade issuers reliant on volume growth.

Financial Institutions

- Banks face second-order credit risk, not direct exposure:
 - Stress in transportation, manufacturing, and consumer portfolios.
 - Counterparty and market-liquidity risk monitoring becomes more important than headline default risk.
 - i.e. In the near term, geopolitical stress is more likely to impact earnings and capital through valuation swings and liquidity stress than through realized credit losses. As a result, counterparty quality, collateral coverage, and market liquidity may be more critical to monitor than traditional default metrics.

Defense & Aerospace

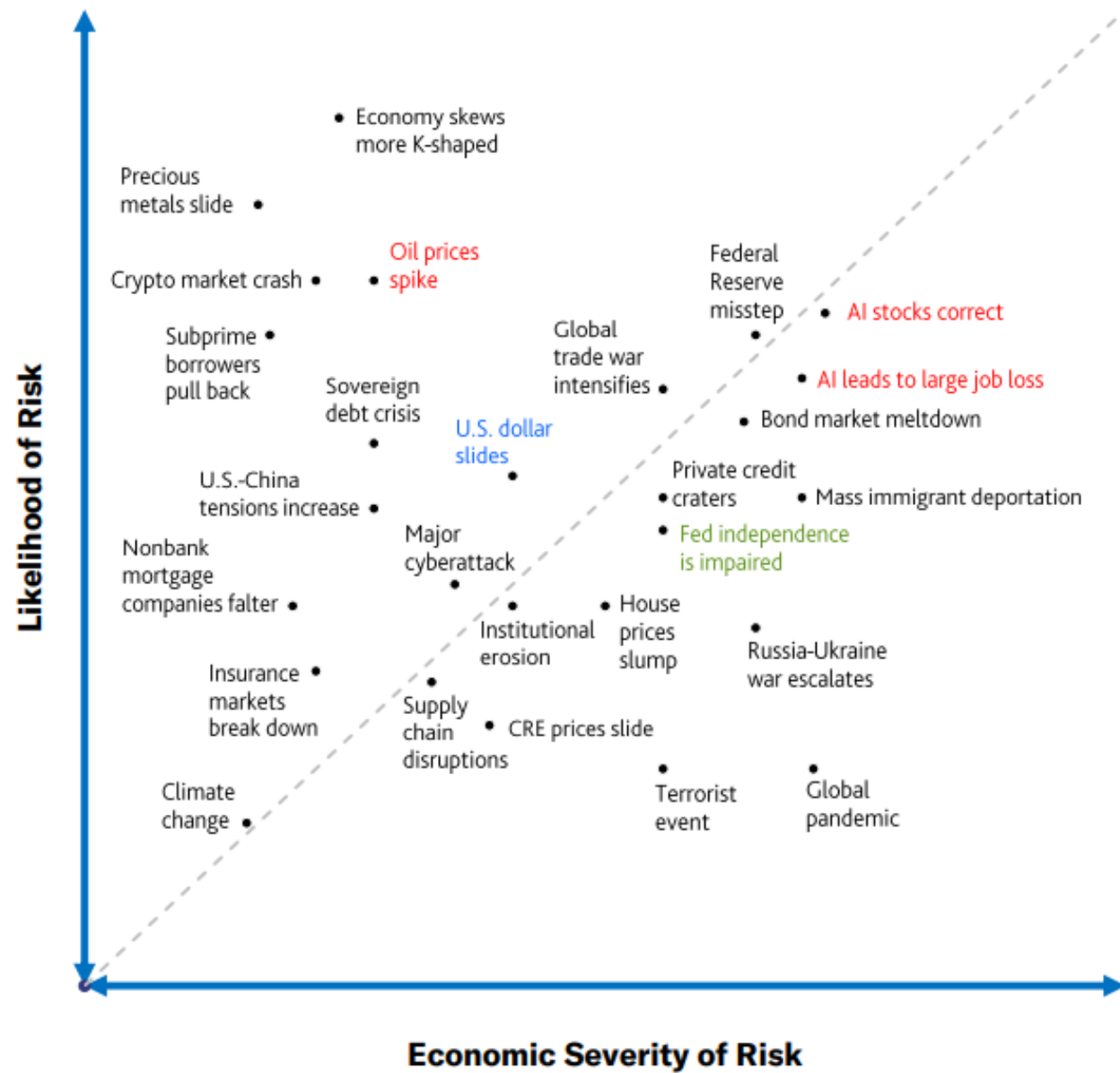
- Increased order visibility and budget prioritization improve revenue stability.
- Generally, credit positive, though valuations may overshoot fundamentals.
- Limited downside risk over the next 4–6 months.

Insurance & Reinsurance

- Elevated geopolitical and aviation/maritime claims risk.
- Premium repricing likely, but near-term earnings volatility possible.
- Risk for capital adequacy strain in specialty and reinsurance segments. |



Moody's Risk Matrix



Note: Changes in red are either an increase in the odds of the event occurring or a new downside risk. Changes in green reflect a decline in the probability of the event occurring.

Source: Moody's

